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SIPDIS

SENSITIVE

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E.O. 12958: N/A
TAGS: EFIN ECON PREL PL
SUBJECT: Poland Cautiously Optimistic EcoFin Will Loosen Rules on Pension Fund Accounting at Next Meeting

REFS: A) Warsaw 1095 B) Warsaw 1057

(U) This cable is sensitive, but unclassified, and NOT for Internet distribution.

¶1. (U) Polish papers widely reported that EU Finance Ministers came to no final conclusions at their March 8 EcoFin meeting on loosening the Stability and Growth Pact procedures for calculating deficits. For Poland, this means that EcoFin has yet to make a final decision on how to classify the current surplus in Poland's Open Pension Fund (OFE's). Poland has been pressing EcoFin hard to include these surpluses, which the Finance Ministry believes will allow it to lower its deficit-GDP ratio to 2.2% by 2007. Polish papers reported that Finance Ministers hope to make a final decision on March 20. Finance Minister Gronicki and his deputies have suggested to Polish papers over the last several days that there is some hope EcoFin will accept an effective compromise under which countries would still have to meet the 3% debt-GDP ratio without including OFE surpluses. However, the excessive deficit procedure would not be applied if an extra deficit was caused by pension system reform. Just in case, the Polish Ministry of Finance announced on March 9 that it will release this week the expected "plan B" (ref a) to implement fiscal reforms to reduce spending.

¶2. (U) Financial markets reacted calmly to the news from Brussels (as they did to the announcement last week that elections could be held on June 16, and speculation on March 7-8 that Deputy PM Hausner might resign). The bond market remained focused on the March 9 twenty-year bond auction (expected to offer yields of 3.4%). Currency markets remained very strong, with the Zloty strengthening against the dollar. Analysts believe that any EU announcement on March 20 of a compromise would strengthen both Polish bonds and the Zloty. The Ministry of Finance also announced March 8 that it plans to repay most of its 12.3 billion Euro in outstanding Paris Club debt by March 31. Finance stated it already has 9.5 billion Euro in financing in place to fund this repayment (3 billion from a new Euro bond issue, 500 million from a private placement and 6 billion in bridge financing). Finance indicated that the remaining repayment amount could come from the budget (cash reserves are up significantly in the first two months of the year).

¶3. (SBU) Comment: The Polish Finance Ministry will continue to push its case as long as it can. The Government still very much wants to stay on track to adopt the Euro by 2009, which would require Poland to meet the Maastricht criteria in 2007. Finance officials are pleasantly surprised that markets have largely ignored both comments about the lack of good news from Brussels on OFE's and the potential for earlier elections. However, given the sensitivity of their ongoing financing needs on both international and domestic markets, they will want to avoid any step which markets could interpret as backing away from early adoption of the Euro.

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